The Role of Public Lands in a National Energy Policy

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My name is Jim Bowles. I am President, Americas Division, of Phillips Petroleum. I represent Phillips Petroleum and the American Petroleum Institute, which has over 400 members, engaged in every aspect of the oil and gas industry in the United States.

While the U.S. oil and natural gas industry has long provided a reliable and affordable supply of energy, the federal government has always played a pivotal role in determining how well our energy needs are met. And the increasing energy demands of our new economy make it imperative that government and industry work to put forth a new national energy policy.

A National Energy Policy

A successful national energy policy must be comprehensive in order to be effective. It must seek to ensure enough energy to support economic growth by promoting responsible development of both domestic and foreign resources. It should recognize that sophisticated new technology developed by the oil and natural gas industry greatly reduces adverse impacts on the environment by exploration and production, both onshore and offshore.

A successful national energy policy will recognize that there is no quick fix to our energy problems. It must reflect the reality that we need to increase supplies of all forms of energy to fully support our growing economy. It is important to encourage responsible use of energy and increase supplies of all fuels, including fossil fuels as well as alternative fuels.

A successful national energy policy must be flexible to allow companies to adapt to new energy and environmental challenges. It should recognize that our refinery and delivery infrastructure continues to be stretched to its limit, restraining the industry's capability to meet new energy demands. It should remove unreasonable and complex regulations on cleaner energy production and transportation to accommodate growth and the continued high demand for energy – and to meet seasonal or unexpected requirements.

A successful national energy policy must rely primarily on the private sector working through free markets, and it must recognize the value of diversified energy sources. To that end, it should encourage competitive trade practices and international investment.

Finally, a successful national energy policy must create a predictable operating and investment environment for energy suppliers. The Department of Energy projects that producers will have to invest some $650 billion through 2015 to meet the growth in natural gas demand alone. That should tell us that government must work to create a more stable regulatory environment so that producers can invest with confidence that they will be able to get a fair return on their investment.

Access to government lands

I am here today to speak to the Committee about access to the government lands that contain much of the country's known reserves of natural gas and oil.

Today, the U.S. imports 57 percent of its crude oil. Last year's gasoline price volatility was due in part to a cutback in production by foreign oil producing countries.

While we cannot eliminate our dependence on imported oil, there are many things that can be done to encourage greater production in this country.

America has vast reserves to help it meet its future requirements. But we must have greater access to government lands to produce this energy in an environmentally responsible manner.

Demand for natural gas in this country has never been stronger. The National Petroleum Council (NPC), a federal advisory committee of the Department of Energy, predicts demand, which is now at about 21 trillion cubic feet (Tcf) per year, at about 29 Tcf by 2010. The Energy Information Administration (EIA) now estimates that, due to Clean Air Act requirements, and increased demand for electricity, we will need 35 Tcf annually by 2015.

We have a tremendous resource base of natural gas in North America. Estimates put it between 1,200 and 1,600 Tcf (including resources in coal seams and tight sands formations). But we have a significant problem due to two key factors.

First, volatile energy prices inhibited drilling during the 1998-99 time period. Second, significantly reduced access to some of the most promising areas has suppressed our ability to increase our proven reserves. This has resulted in today's high prices, as demand has continued to grow.

With higher prices this year, oil and gas producers are making good returns on their investments, and plowing additional capital into new exploration. While some increase in supply has taken place, achieving the reserve growth needed to meet expected demand growth over the long term will require sustained growth in drilling activity.

We recognize that this has been a costly and painful year for consumers. It is, therefore, critical to help consumers understand what the United States must do from an energy policy standpoint to ensure that the U.S. maintains and enhances its long-term supplies. Put simply, increased drilling and stable long-term prices are crucial to future supplies.

Yet, many of the government's multiple use lands have been placed off-limits by the federal government. Since 1983, access to federal lands in the western United States—where an estimated 67 percent of conventional onshore oil reserves and 40 percent of our natural gas reserves are located—has declined by 60 percent. Equally important is the fact that discretionary land management policies often unnecessarily restrict or impede efforts to develop resources on public lands. Our ability to search for new domestic offshore oil and natural gas is limited to portions of the Gulf of Mexico and offshore Alaska waters because congressional moratoria have withdrawn most of the rest of our federal Outer Continental Shelf from consideration.

What is access to government lands? We do not request to drill on parklands or in wilderness areas set aside by Acts of Congress. Rather, we seek access to areas in the American West that have been designated as "multiple use so that numerous activities can take place there.

Most of these areas are simply vast expanses of non-descript federal lands. However, because they lack the beauty and grandeur of the Grand Canyon or the Grand Tetons does not mean that we treat them with less respect than we do any other lands entrusted to us by the government, or by private landowners. Most people driving near or hiking in one of these multiple-use government land areas would be hard-pressed to locate one of our facilities once the drilling rig is removed. It has become fashionable for

editorialists and others to refer to our industry as a "dirty" or "messy" business. Safety and environmental protection are critical concerns, regardless of their location, and where our contractual lease obligations with the government require us to return the land to its original condition once drilling and production cease.

Yet, despite our record of sound stewardship, President Clinton used his executive powers under the Antiquities Act to bar oil and gas exploration and other activities on vast regions of government lands.

For example, the designation of the Grand Staircase-Escalante Monument in Utah in 1996 summarily withdrew promising valid oil and gas leases on state lands without even notice or consultation with state and local authorities, or affected communities. Likewise, the U.S. Forest Service recently banned our companies from exploring for natural gas and oil on promising government lands when it published rules to bar road building on nearly 60 million acres in the Forest System.

Offshore, the "consistency" provisions of the Coastal Zone Management Act (CZMA), under the guise of due process and consultation, have caused serious duplicative and incredibly costly delays to federal OCS leasing and production activities that would have no adverse environmental impacts on states' coastal zones. And regulations issued by the National Oceanic and Atmospheric Administration (NOAA) in the last days of the Clinton Administration appear to add impediments to environmentally compatible energy development in the OCS, contrary to the balancing of competing interests directed by Congress when it enacted the CZMA. Both the summary withdrawal of multiple use government lands without stakeholder consultation under the Antiquities Act, and the endless due process used by opponents to block federal offshore production that does not affect a state's coastal zone are extreme, and must be moderated.

Further, Congress has refused to authorize exploration on the small section of the Arctic National Wildlife Refuge (ANWR) that was specifically set aside by law for exploration in 1980, after a 1987 final environmental impact statement concluded that it could be safely developed.

We respect, and strictly adhere, to all of the Nation's environmental laws. However, many government lands offshore and onshore that should reasonably be open for leasing are, in fact, off limits, or severely restricted from responsible development.

Offshore Lands

Offshore, the OCS has assumed increasing importance in U.S. energy supply over the past half century. The federal portion of the OCS now supplies 19 percent of the oil and 27 percent of the gas produced in the United States. Offshore production promises to play an even more significant role in the future. The Department of Energy forecasts that offshore production will rise to nearly a third of our domestic oil and gas supply within a decade.

In recent years, exploration and development of the offshore has been a major factor contributing to domestic energy supplies. From 1993 to 1997, new proven reserves replaced over 147 percent of offshore oil produced, and over 106 percent of gas produced. In 1997 alone, the Gulf of Mexico accounted for over 79 percent of the new field discoveries of oil in the United States.

The relatively shallow shelf of the Central and Western Gulf was the focus of past development, and is the location of the majority of current oil production and the vast

bulk of current gas production. It has been a source of growth in gas production in the United States for nearly three decades.

Technological revolutions, such as 3-D seismic profiling of promising structures, coupled with astounding computer power and directional drilling techniques which allow numerous reservoirs to be accessed from one drill site have driven down the costs of finding oil and gas. And at the same time these technologies allow development with much less disturbance to the environment. Tremendous advances in our ability to drill and produce in the deep waters of the Gulf have also resulted in vast new reserves being added to our resource base. The Deepwater Royalty Relief Act developed by this Committee, and passed by Congress in 1995, has significantly aided that endeavor. Those in the federal government who are most familiar with our industry have lauded our technological advances.

A 1999 DOE report, Environmental Benefits of Advanced Oil and Gas Exploration and Production Technology, stated that, "... innovative E&P approaches are making a difference to the environment. With advanced technologies, the oil and gas industry can pinpoint resources more accurately, extract them more efficiently and with less surface disturbance, minimize associated wastes, and, ultimately, restore sites to original or better condition.... [The industry] has integrated an environmental ethic into its business and culture and operations...[and] has come to recognize that high environmental standards and responsible development are good business...."

However, there is now accumulating evidence that resource depletion is overtaking the effects of technical advances on the cost structure of OCS development. The volume of reserves added per dollar of capital spent in the OCS has been falling steadily since the early 1990s. Due to increased demand, reserves are being depleted at an ever-increasing rate. Due to more efficient extraction technologies, the decline from new gas wells is now estimated to be as high as 40 percent per year.

This does not suggest the imminent collapse of OCS production, but it does suggest that the drilling and capital expenditures required to replace and augment reserves will become increasingly important. We must increase deepwater development, and access to areas presently restricted. Currently, presidential moratoria, and annual Interior Appropriations bill riders preclude leasing in most of the Eastern Gulf of Mexico, the entire Atlantic and Pacific federal OCS, and portions of offshore Alaska.

As a result, only 200 million acres out of a possible 1.5 billion federal OCS acreage is available for environmentally compatible exploration and production.

The National Petroleum Council estimates that more than 76 trillion cubic feet of gas are off-limits in the federal OCS as a result of the current moratoria. Twenty one Tcf are estimated to lie in the federal waters beneath the Pacific, 31 Tcf beneath the Atlantic OCS, and about 24 Tcf are projected to lie beneath the Department of the Interior's Eastern Gulf of Mexico Planning Area.

Again, our companies have the technology, and the will to explore and produce in these areas in an environmentally compatible manner. It is already being done in Canada's OCS, where oil and natural gas activities off the Atlantic coast have been conducted successfully in recent years with environmentally sound developments. Those supplies are now becoming available for the energy needs of New England.

America will soon have a great opportunity to augment its reserves. Federal OCS Lease Sale 181 represents a plan for leasing by the Department of the Interior in the

Eastern Gulf of Mexico Planning Area. Scheduled since the mid-1990s based on comprehensive environmental reviews, and consultations between former DOI Secretary Bruce Babbitt and then Governors Chiles of Florida and James of Alabama, Sale 181 is slated to be conducted in December 2001. The area available in Sale 181 is estimated by the NPC to contain 7.8 trillion cubic feet of natural gas and 1.9 billion barrels of oil. This means that natural gas from the Sale 181 area could satisfy the current natural gas needs of Florida's 5.9 million households for the next 16 years. Lastly, the crude oil from the Sale 181 area (which is expected to come from the deepwater areas, far removed from the coastline) could fuel 74,000 cars for 20 years.

These potential reserves can be produced cleanly, for advances in technology have made offshore oil and natural gas exploration and production safer than ever. For the 1980-1999 period, 7.4 billion barrels of oil have been produced in the OCS with less than 0.001 percent spilled—a 99.999 percent near perfect record.

Alaska's North Slope

In the early 1970s, as petroleum production from the Lower 48 states entered a decline, a new discovery of oil at Prudhoe Bay on the North Slope of Alaska offered the U.S. the promise of a significant new source of competitive domestic supply on a world-class scale. The discovery was initially estimated to be 9.6 billion barrels of oil, nearly double the size of the largest field ever previously found in North America. Despite high costs, a hostile climate and major environmental challenges, supply from Prudhoe Bay came online in 1977, offsetting much of the decline in Lower 48 production through the mid-1980s.

By the mid 1980s, Alaska's North Slope was supplying about a quarter of U.S. oil production. Meanwhile, as Prudhoe production grew, the estimated resource potential of the North Slope began to grow as well, as other finds occurred. However, North Slope production has been falling. North Slope production peaked in 1988, and by 1998 had fallen by nearly 40 percent.

Phillips and other companies operating on Alaska's North Slope are actively exploring for new sources of oil in the areas that have become available for leasing. This includes the National Petroleum Reserve-Alaska (NPRA) and the Alpine field, located in state lands west of Prudhoe Bay in an incredibly rich and diverse wildlife habitat. The new Alpine field is a great example of how technology has minimized any impacts of arctic oil and gas development. Only 97 acres, an area smaller than the area covered by the U.S. Capitol grounds, are needed on the surface to produce from an area of 40,000 acres, an area roughly the size of the District of Columbia.

This winter Phillips will drill 12-15 exploratory wells. Today's North Slope exploration takes place during the winter using ice pads and ice roads that melt in the Spring, leaving almost no trace of the previous Winter's exploration activities. When oil and gas is discovered, new technologies developed from our experience in the Arctic have tremendously reduced the so-called "footprint" of our activities in our operations to extract these resources.

The U.S. Geological Service estimates there to be more than 10 billion barrels of oil recoverable from the coastal plain of ANWR, and, perhaps as much as 16 billion barrels. That is equivalent to the volumes we would import, at current levels, from Saudi

Arabia for the next 20-25 years. If those volumes are found it would be the largest oil discovery in the world in the last 30 years.

And due to technological advances, the "footprint" to develop ANWR, if exploration confirmed the vast reserves predicted there, would be only an estimated 2,000 total acres out of a total area of 19.8 million acres, a tract roughly the size of South Carolina.

The Lower 48

In the Lower 48 states, a 1997 study by the Cooperating Associations Forum found that federal lease acreage available for oil and gas exploration and production in eight Western states (California, Colorado, Montana, Nevada, New Mexico, North Dakota, Utah and Wyoming) has decreased by more than 60 percent since 1983.

Approximately 205 million acres of federal lands in these states are under the control of two federal agencies with broad discretionary powers. The Bureau of Land Management (BLM), whose land management planning authority is derived from the FLPMA of 1976, and the USFS, whose jurisdiction is derived from the National Forest Management Act, administer these federal, non-park lands.

Both agencies are required to manage lands they administer under the congressionally mandated concept of multiple use. Yet, BLM and USFS discretionary actions have withdrawn federal lands from leasing, and long delayed other leasing decisions and project permitting.

Congress has directed the BLM and the Forest Service to allocate non-wilderness lands for resource use, identify areas that are available for oil and gas leasing, and identify important wildlife habitat areas, and inventory wilderness candidate lands among other uses. Each agency has completed land use plans for the lands they administer, including lands that are candidates for wilderness designation. Yet, some lands found unsuitable for wilderness designation are, however, managed as "wilderness study areas," effectively removing these lands inappropriately from consideration for resource development. Further, these agencies often dictate lease stipulations as conditions of approval for exploration and production. Stipulations are intended to protect resource values in conjunction with proposed projects, such as exploratory wells, yet many conditions required, such as "no surface occupancy," essentially preclude exploration and production from occurring.

The NPC study on natural gas referred to earlier also points out that vast reserves of natural gas in the form of coal bed methane (CBM) lie beneath federal lands, especially in Wyoming and Montana. However, BLM's inability to grant permits in a timely manner has greatly hindered CBM development, and may contribute to further shortfalls in necessary future gas production. In some instances we recognize that individual BLM offices may be understaffed and therefore are simply unable to efficiently process permitting requests. We therefore support increased funding for BLM to adequately address these critical permitting backlogs.

We applaud this Committee's involvement in legislation enacted in the last Congress directing the Departments of the Interior and Energy and the Forest Service to conduct an inventory of oil and gas resources on federal lands and the restrictions that prevent access to these critical resources. We urge Congress to fully fund this inventory in the FY 2002 appropriations process so that adequate information will be available on resource availability.

In conclusion, we must recognize that this industry in the 21st Century has the technologies, and sensibilities to explore for, and produce our Nation's vast reserves of secure oil and gas—resources that keep factories and offices running, and our homes comfortable regardless of the weather. Oil and natural gas are the key ingredients in thousands of products that we use, from life-saving medical devices to fertilizers that help feed the world.

I am grateful to the Committee for the opportunity to present our views on a national energy policy for the long-term health and continued prosperity of our Nation.

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